



Tata Chemicals Limited
Q3 FY18 Earnings Conference Call
February 7, 2018

Moderator: Ladies and gentlemen, good day and welcome to the Tata Chemicals Q3 FY'18 Earnings Conference Call. I would like to hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you sir.

Gavin Desa: Good morning, everyone, and thank you for joining us on Tata Chemicals Q3 & 9M FY'18 Earnings Call. We have with us today, Mr. R. Mukundan – Managing Director and Mr. John Mulhall – Chief Financial Officer.

Before we begin, I would like to mention that some of the statements made in today's discussions may be forward-looking in nature and may involve risks and uncertainties. A detail statement in this regard is available in the 'Results Presentation'. I now invite Mr. Mukundan to begin the proceedings of the call.

R. Mukundan: Thank you, Gavin. Thanks, everyone for joining us on our earnings call. I have with me, Mr. John Mulhall – our CFO, who would run you through the headline numbers and briefly update you on our financial position" for the period under review.

Prior to that, I will run through the various operational and strategic issues which will give an overview of where the Company stands in its journey ahead.

I am pleased to report a robust performance in India as well as the global businesses and both are continuing to register improved profitability through efficient operations. Our performance for the quarter broadly has been in line with what we had said and communicated to all earlier in Q1, where we said the Q2 and Q3 will be robust quarters.



Coming to Business Wise Performance; our domestic Soda Ash business continues to perform well, with volumes and realization improving during the quarter, demand is strong and we expect this to sustain. In January, we were compelled to take a price increase mainly to offset the impact of rising energy cost. The International businesses also performed well during the quarter. Though, numbers may not reveal true performance given the currency impact, but on constant currency basis, we are pleased with their performance.

Starting with TCNA the volumes were good and operating leverage also helped us in reducing fixed costs, in turn to enabling us to maintain improved margins.

The Financials include certain one-offs and I think John will elaborate both of these elements mainly coming from TATA Chemicals North America on Post Retrial Medical Plan and AMT. The European business has done well and the African business continues to perform well.

Moving on to our Consumer Business: Salt continues to be a market leader, volumes were also higher for the quarter, and the run rate is back to where it ought to be. The performance in pulses is soft and spices is bouncing back with step-by-step increase every month as we go forward.

We are working towards enhancing the depth and width of our portfolio. In this regard, we launched Multi-Grain Khichdi Mix in January. This is our first foray into bringing cereals into the market in addition to proteins. This mix is multi-grain and has been formulated with food connoisseur as well as Tata Sampann Brand Ambassador Chef Sanjeev Kapoor. We entered into "Guinness World Record" by making Khichdi which was made at "World Food India Festival in November 2017" and this product has been well received in the market. We believe as we move along, we will come out with series of mixes and ready-to-cook formulations which will be in the marketplace as we crank up the product variety and as well as the product maturity.

On the Farm business, Rallis continued to do well along with Metahelix, despite tough conditions in the marketplace.

As far as Fertilizer is concerned, these businesses are now reported as discontinued operations, while not in this quarter, in the Q4 we would be recording the consideration amount which we have received which is Rs.2,682 crore from Yara transaction. Our sale of Phosphatic Fertilizer is also proceeding on schedule; as on date we have received the approvals for transfer of land and other conditions precedent which are part of the agreement, we are hopeful of consummating this transaction soon. That puts the entire effort now back in the area of growth. Our growth drivers are going to be the consumer business, about which I spoke in terms of product launches and the support that business will get going forward and Specialty Chemicals. You are aware that the Board cleared the Nutraceuticals project and the land has been taken over by us in Nellore, the construction of the plant has begun and we expect that plant to be on-stream this is a full blown commercial plant by end of this calendar year or may be early next year.. Full commercialisation will be after product qualification, which can take a few months, running us into post summer 2019.



As far as HDS is concerned, which is part of our Rubber and Polymer Additives business, the discussions and negotiations in terms of structuring an operational outcome for that plant is also well under in mature way and we will make the announcement shortly as soon as we conclude those discussions. So both the projects, which are ~ Rs. 275 crore of each investment, are progressing well. My own view is that this project may see the commercial production ahead of even the Nutraceuticals project.

To conclude, the balance sheet has been deleveraged. We have got a healthy working capital levels now. We are clearly focused on continuing our leadership in Industrial Chemicals or Bulk Chemicals as we call it which is mainly Soda Ash, growing our Consumer business and the Specialty business. Specialty business today comprises of Bicarbonate, Agrochemicals, Nutraceuticals, Rubber and Polymer Additives. We are extremely confident that both these Consumer foods and Specialty business over a period of time will meet the target which we had set ourselves to be at least 50% of the revenue of the Company.

I would also like to state and add that we are pleased the way the work is progressing even in the Inorganic Chemicals business where it is continuing to strengthen its position and continues to deliver margins to support the growth of the Specialty and Consumer foods business.

With this broad outline, I request John to give some insights on the financial performance.

John Mulhall:

Thanks, Mukund. You have received the analyst pack last night, so I am not going to run through line-by-line on the accounting numbers, we shall answer questions later on, but I just want to talk about a couple of points of note; first of all, as Mukund mentioned earlier that we concluded the Business Transfer Agreement with Indorama in November 2017, and hope to complete that by end of this quarter, all being well.

With respect to North America manufacturing performance, this is the end of the first half of the tough period that we had in last two years that is the final quarter in the calendar year and the first quarter in the next year. At the end of December 2017, we are about 60,000 MT ahead of production for the last nine months of last year. So that first phase of risk has disappeared, we are just waiting for the end of this winter, and we will be able to report whether the winterization and the remediation work that the team have carried out in the last two years has been fruitful.

As Mukund referred some fairly large adjustments from North America, the first in exceptional items, there were two entries: we are moving office in North America and severance costs required for that have been provided. The second is we have changed some of the Post-Retirement Medical Plans that has required taking one-time credit of about Rs.78 crore due to accounting rules. The bigger adjustment is on deferred tax. The reform of the US tax legislation, which came through the end of last year, impacting really from next year onwards for us, is the repeal of the advance minimum taxation – AMT. As we were always an AMT payer. Our tax rates based on the federal tax calculations were always below the AMT rates, meaning we always had to pay AMT, this creates a deferred tax asset. Of course, as we were always



going to be an AMT payer our ability to recover the deferred tax asset is minimal, therefore we provided for that on an annual basis. With repeal of AMT this becomes a live asset as we can recover the tax paid over the next number of years and also will end up reducing our income tax expense going forward as the rate has fallen from 16%, where we normally have been going, to probably 14-15% going forward. So that is really the impact. North American is a one-time immediate hit, but also have some lasting benefit on our ongoing tax expenses from FY'20 onwards.

The final piece there also good news at the end of December at TCL standalone basis we were net cash positive by Rs.102 crore including Rs.1,189 crore of cash in the bank. The outstanding subsidy at the end of the quarter was Rs.1,524 crore, of which Rs.740 crore belongs to the Urea business, which was sold to Yara in January 2018.

On that point, I will close my comments and open up for any questions.

Moderator: Thank you very much, sir. We will take the first question from the line of Viraj Kacharia from Securities Investment Managers. Please go ahead.

Viraj Kacharia: Just had a couple of questions; first is just wanted to get some broader clarity on absolute debt reduction target we have say over next two to three years, and secondly of the current debt on the consol level, which is close to Rs.6,000 crore, how much would be pertaining to the Urea and NPK because the deal just happened in January?

John Mulhall: Of the gross consolidated debt of Rs.5,971 crore, there is no debt relating to Urea and there is no debt in India apart from the external commercial borrowings [ECB] and NCDs which were corporate, that is first piece. On targets, I do not have a debt target. What we have seen now is with the Indorama transaction that is the end of the first phase of reconfiguration of our business, now we need to go into the growth phase, as Mukund has highlighted, the first two steps on Nutraceutical and HDS, and there will be other processes to come forward. So until we have finalized those, we are not going to issue any debt targets.

Viraj Kacharia: So the reason of asking is once we conclude the Indorama deal also, we will have left with at least Rs.3,500-Rs.4,000 crore of cash on our books by the year-end because the opportunity itself we will be generating some amount of cash in the last quarter. So if we look at this cash position which we have by end of March, what is the broader idea...where are we looking to deploy this kind of cash if not towards debt reduction?

R. Mukundan: The issue which we have is that the net debt reduction is going to be a head of the time at which we need to repay the debt, there is no point in prepaying the debt because it is a low cost debt. The bulk of the cash is going to be in India and the overseas entities have been levered and they will pay down the debt out of their earnings, we are not intending to pay the overseas debt using Indian cash. These have been broadly discussed in the board. The only thing which I can add is that the Board is very conscious of the cash in the company and it also is very conscious of the growth opportunities, they have seen the opportunities which extend to the next

five years. So they will appropriately review managing the balance sheet, managing growth and rewarding the shareholders. They are triangulating these three elements and please leave it to the Board to come with its view.

Viraj Kacharia: Just a follow up to that; so of the current Rs.6,000 crore of debt which we have on our balance sheet, how much would be pertaining to subsidiaries and how much would be on the standalone?

John Mulhall: Standalone gross debt is Rs.1,087 crore.

Viraj Kacharia: The rest would be pertaining to the subsidiaries in US, Europe and...?

John Mulhall: Yes, correct.

Viraj Kacharia: Is there any further divestment of Group investments which we have taken in Q3 apart from Tata Global Beverages which we have taken in Q2?

John Mulhall: No, that is it.

Moderator: Thank you. We will take the next question from the line of Apoorva Bahadur from ICICI Securities.

Apoorva Bahadur: The Fertilizer business is now held for sale. So difficult to understand, about the breakup between the performance of the Urea and NPK business. So which business has actually done better, if you could throw some color on that?

R. Mukundan: It does not matter because they are both held for sale and both have done well in Q3 we had expected that the Fertilizer would do well and it did. Usually Phosphate underperforms in Q4, I will just give a historical trend, Urea continues to perform on a steady pace all the way across. Q4 will be even better performance for Urea because some of the year-end adjustments come in, in the Q4 whereas Q4 will be anemic for most phosphatic players.

Apoorva Bahadur: Domestic Soda Ash businesses have seen some strength over the demand and the realization side. So, is there any specific reason for this increase in global prices, why is the realization really gone up?

R. Mukundan: We had highlighted that there is increase in pressure within China to modulate their production because of environment concerns, I think that has taken out capacity which has effectively been counterbalanced by increase capacity coming from Turkey. The markets are fairly balanced, which has been my constant view all along that this market will remain balanced for many years to come. The fundamental shift in the pricing has been driven more by cost increases. There have been a bit of spikes in some markets because of lack of arrival of materials, Southeast Asia saw a huge spike in pricing, but these are mainly due to let us say the inventory dislocations which happen from time-to-time. The price changes are mostly driven by energy increases and we do hope the pricing changes in oil, gas and coal have reached a peak as of now. But if they do increase further, we are very clear that it will start putting pressure on the margins.

- Moderator:** Thank you. We will take the next question from the line of Abhijit Akella from IIFL.
- Abhijit Akella:** First, just to understand the restatement in the Inorganic Chemicals segment in the standalone operations. It appears that the previous quarter's EBIT numbers in particular have been restated upwards compared to what we reported last quarter, and the margin now in that segment seems to be much higher than it has been in the past, it is almost 30% at the EBIT level whereas previously we were around 25% or 26%. So I was just hoping to understand what might be driving this restatement and whether we could expect these margins to continue going forward?
- John Mulhall:** We haven't restated anything
- Abhijit Akella:** Okay, fine, the second thing, I just wanted to check is when we look at the EBITDA breakdown of the businesses given in your presentation, sum of the individual businesses does not exactly add up to the consolidated, I guess there is an elimination difference which is positive this quarter whereas previously it used to be negative. So just wanted to check if there is some one-off income or something of the sort, that is...
- John Mulhall:** Occasionally, you get things like translation differences on preference capital between the international subsidiaries and TCL, you may get some inter-company stock as we sell from Kenya to India as well, there is a small difference which you will see; Rs.40-60 crore like that.
- Abhijit Akella:** So that will be largely temporary?
- R. Mukundan:** They unwind, and they keep sort of moving up and down, so I do not think there is any issue, I think the swings may be Rs.25-30 odd crore on QoQ.
- Moderator:** We take the next question from the line of Mr. Akshay Bhor from Kotak Securities.
- Akshay Bhor:** First question is on the Consumer business, last year in ex-salt you did about Rs.375 crore top line. What is your expectation for this year in terms of top line given you have already done about 10-months, and in terms of margin as well where do you see yourself in FY'18 and '19?
- R. Mukundan:** So broadly speaking in terms of the non-salt portfolio, we expect that it probably is going to be close to about half of what it was last year, mainly driven by a sharp reduction in pulses prices this year, and also the pulses volumes which we have toned down because we are focusing our sales to modern trade. We have actually pulled back from other channels and concentrating first to build franchise in modern trade, where there is certainly a consumer pull for branded products, much more than we see in the general trade. That is one switch which is there. Overall segment numbers, while they may not break even at EBIT level, they will certainly be better than last year because of better inventory management and better cost management, there are still investments going on in the Sampann brand, the brand building exercise is costing us anywhere between Rs.25-30 crore pa, that investment will continue for some time.

- Akshay Bhor:** Second question is on Pesticides and Seeds business ex-Rallis. In 2016, you have given the breakup and the top line is about Rs.400 crore. This business still remains part of TATA Chemicals, right?
- R. Mukundan:** Yes, it is a subsidiary, so it will be part of the consolidated number
- Moderator:** Thank you. We take the next question from the line of Sumant Kumar from Motilal Oswal. Please go ahead.
- Sumant Kumar:** Regarding HDS and Nutraceuticals solutions, when is the commercialization expected?
- R. Mukundan:** The plant construction is on. The Nutra plan should finish construction by the end of this calendar year or early 2019 with testing thereafter. Full commercialization will be after product qualification which can take a few months, running us into post summer 2019 etc. As far as HDS is concerned, I think the trial run may start even earlier depending on what sort of a deal we conclude, so, you should wait for an announcement to happen.
- Sumant Kumar:** Regarding the Soda Ash price outlook, we know that energy cost is increasing and the price is moving up. Do you think going forward the price will increase further, and what is the outlook for India and TCNA?
- R. Mukundan:** If energy cost increase further, I said already margins may be under pressure, because we have already locked in contracts in some places, so those which are spot may go up, where those which are locked in contract cannot. But broadly what I would say is that we think the market is in balance, if at all there will be minor movement in margins depending on how the energy prices move. As far as the US is concerned, US energy is properly hedged, so we do not see any movement in US. The hedging as an instrument is not there in India because we mainly buy coal and hedging as an instrument is partly there in Kenya, we buy HFO but these are, financial hedges not physical hedges which we have in US. Clearly, the issue is more on India and marginally on Kenya, but Kenya may in fact report better numbers than what we have because of certain market shifts which are there, but that has got nothing to do with energy cost. The energy pressures would be seen in standalone and certainly we would try to pass on as much as the cost increases to the market, but I do not want to make any statement that it will be 100% done. It may well be the energy prices may fall, and margins may expand, So we have to just keep a watch on coal prices.
- Sumant Kumar:** Assuming the balance supply/demand scenario that you have talked about the Turkey, so do you think more capacity will go away from the system because of environmental issue in China, and the demand is going to increase, so in that case, the price increase will be there, and the margin expansion for Soda Ash player?
- R. Mukundan:** I think I do not want to make any comments on this. My view is that the market is going to remain fairly balanced and the balance will continue for at least one to one and a half years, after which what you say will happen, markets will sharply tighten.

So we do expect the future market to be tightening, but for at least 18-24 months, I do not see any tightness coming in.

Moderator: Thank you. We take the next question from the line of Amit Murarka from Deutsche Bank

Amit Murarka: On US Soda Ash, I see that the production has been quite stable, in fact just marginally down, but looks like sales have dipped more on a sequential basis. So was there a buildup of inventory or basically was there a logistic issue, or was it a market demand issue, just to understand?

R. Mukundan: There are no issues, in fact they have been running very well, flat out and markets have been fine, may be a minor movement.

R. Mukundan: Some customers may slow down in Christmas, it has got nothing to do with demand, nothing to do with production, and it is very minor.

John Mulhall: The important thing is YoY, because we had some production issues last year, we rectified those they haven't come forward this year that is important for us than missing a boat due to timing.

Moderator: Thank you. We take the next question from the line of Amar Mourya from Emkay Global. Please go ahead.

Amar Mourya: Sir, my first question is on the North America operations. You said that your tax rate is going to reduce from 16% to 14%, right?

John Mulhall: Yes, that is an estimate..

Amar Mourya: Is it that the benefit which we are getting because of reduction in the tax rate, that is what is the benefit coming in or that is yet to come?

John Mulhall: No, what is happening is repeal of the AMT is causing this rate reduction.

Amar Mourya: Secondly sir, about the Nutraceutical business and Rubbers and Additive business, we are investing almost around Rs.275 crore each, that is right, right. So what is the kind of asset turnover ratio we can see in this kind of business and what is the kind of ROCE's we are targeting in this?

R. Mukundan: We have said that we do not approve any business which has ROCE less than 20%, that is our target rate. So I do not want to give any specifics. So you should go by the broad view which we have said in our 'Strategy Presentation'. So these two meet those norms. Secondly, the asset turn in this business is anywhere between 1.5x-2x, and the rest of the stuff you should be able to construct.

Amar Mourya: When we are talking about the Nutraceutical business I am assuming this is the Human Nutraceutical business, right. So what would be the target market for these kinds of products?



R. Mukundan: The plant is being constructed for the most stringent segment which is Pediatric segment, but we may not just sell to Pediatric, once we set a plant for Pediatric segment, it can go straight from normal adult food to pediatric food to even animal feed, it can go all the way. Part of these also are used by shrimp farms, so there is a good demand in India for that. So what we have done is we have set up the plant to make sure that it meets the toughest regulation.

Amar Mourya: But then ideally the products which we are going to manufacture, what would be the target market for these kind of products -- Is it India? Is it overseas?

R. Mukundan: Bulk of these are overseas, these are multinational companies starting from pharmaceutical companies and others like food companies, so they are ones who buy. We have established new relationships around the world, we have put distributors around the world, in this marketing effort, while production is in India, supplies are from India, market is around the world.

Amar Mourya: Meaning this would a very-very high margin business, right?

R. Mukundan: I would not make any comments on that beyond what I said.

Moderator: Thank you. We take the next question from the line of Devender Bhandari from Joindre Capital.

Devender Bhandari: Sir, I want to know after this Urea business money, how much cost of funds deduction will be, interest we are paying Rs.88-90 crore quarterly, on repayment of loans, our future interest cost should come down no, what are you going to do with this money?

R. Mukundan: I do not think interest rate will go down because we have to repay the loan as per schedule, but the net interest will come down, you can assume, may be 5.5% on the cash in the Company. We will repay the debt when we pay, so that interest paid will remain constant. But there will be interest earning which will come into the company to the extent of cash.

Moderator: Thank you, we take the next question from the line of Abhijit Akella from India Infoline, please go ahead.

Abhijit Akella: Just a couple of quick clarifications; the price increase in Soda Ash in India is that Rs.400 a ton. Could you please confirm?

R. Mukundan: Yes, that is correct.

Abhijit Akella: That is effective January 1st is it?

R. Mukundan: Yes, correct.

Abhijit Akella: Second, just to confirm, in Tata Chemicals North America the gap between EBITDA and PBT is only Rs.20 crore this quarter, whereas previously it used to be as large as



Rs.70 or 80 crore a quarter. So, I just wanted to confirm whether this is because of the actuarial valuation gain that you might have included within interest cost. Is that correct?

R. Mukundan: Yes, the medical pension scheme.

Moderator: Thank you. Ladies and gentlemen, we take the last question from the line of Viraj Kacharia from Securities Investment Managers. Please go ahead

Viraj Kacharia: I have two questions; first is if we broadly look at the new segments also we have talked about HDS and Nutraceutical that we are looking at 20%+kind of ROC profile. So just want to understand broadly from the Tata Chemicals consolidated business perspective, what kind of ROC profile are we targeting -- are we looking to achieve 20% of our ROC profile, and what is the timeline and driving factors behind that?

R. Mukundan: We have made this point, our target number overall for the Company is 20% and we are moving in that direction, I think the first step of strategic shift has happened, the growth of consumer and the specialties which includes Bicarbonate business, which already is fairly mature in Tata Chemicals, Agro Chemicals which is done in the subsidiary, Rallis, and Nutraceutical and Rubber and Polymer Additives, all put together will drive this forward towards the direction of 20% and it will continue to sustain there, that is our target.

Viraj Kacharia: If you look at the mix of these businesses also, these are still in the seeding phase especially the HDS, Nutraceutical, and even the Sodium Bicarbonate, compared to overall scale of business, these are quite small at the moment?

R. Mukundan: Specialty Chemicals business today is over Rs.2,000 crore in terms of turnover. So if I add the ones which are earning money which are not in investment, which is basically what revenues flows through from Rallis plus the revenue which we have from bicarb, it is in excess of Rs.2000 crore already. Consumer business also is moving beyond Rs.2000 crore at this stage. So in a consolidated basis, about Rs.4,000 crore would be split between Consumer and Specialty which are already running at run rate of more than 20% ROCE.

Viraj Kacharia: I have the second question which was, you talked about looking at deployment of cash towards growth and towards rewarding shareholders. So if I just purely talk about growth, would incremental focus be on non-Soda Ash operations?

R. Mukundan: As far as Soda Ash operations are concerned, we are clearly going to sustain our current operations with whatever investments are needed to do what we call as "Minor De-Bottlenecking" those are being cleared, there could be minor de-bottlenecking in India, there could be minor de-bottlenecking in US, and we are also working to restart the PAM plant at a very low CAPEX. So these would be low CAPEX but certainly they will take certain capital, our current sustenance capital is running at about Rs.500 crore, you will see some increases in some years by Rs.200 or Rs.300 crore depending on whether you put in this incremental capital in or not, but these investments will certainly be paying back in about 12 to 18-months immediately.



- Viraj Kacharia:** The last question was on the debt repayment side. Of the total Rs.6000 crore, Rs.5000 crore is shares in the overseas subsidiaries. As per the normal repayment cycle, by when do we expect bulk of this to be get repaid?
- R. Mukundan:** I suspect the International debt may come down close to Rs.2500-3000 odd number, but it is not going to disappear, but certainly part of it will get repaid as John has said early '20.
- Viraj Kacharia:** The last question was on the Soda Ash side. If I look at the business in Q3, we have seen some pressure on the pricing side. So just want to understand, especially in India and North American business, so this has strong volume growth, and also if you consider the global environment, where the pricing has been very favorable, just want to understand your perspective on that?
- R. Mukundan:** As I said, the prices are more or less going to remain balanced, the issue going forward are going to be, cost increases, part of the cost increases will drive further price increases so it is mainly to protect the margin, but we will see how much gets passed on, how much cost increase comes from here on, certainly there is a minor pressure on cost, but all I want to say is that the Industry is in good shape. So we will see through the year like we have seen through every year, but I do not want to make early predictions on these, because I may be wrong up till now it worked in our favor, it may not so, I just want to leave you with that uncertainty.
- Viraj Kacharia:** How much percentage price increase would have taken in Q4?
- R. Mukundan:** We said Rs.400 we have taken in India. Thank you everyone. I think that was the last question, and we are very thankful for you all have joined in. I just want to again reiterate that the Company's first step in terms of deleveraging and making sure that our working capital levels are in good shape has been achieved. I think we are onto the second phase of growth, and you will constantly see various announcements coming in as we press ahead in the direction of building a great Consumer franchise, and Specialty products which leverage Science & Technology within Tata Chemicals.
- Moderator:** Thank you very much sir. Ladies and gentlemen, on behalf of Tata Chemicals Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.